



Interview

Ahmed Tabaqchali: Expert Opinion on the White Paper

The White Paper for Economic Reforms was released in October 2020 in an attempt to put the Iraqi economy on the right path.

The Paper addresses the root cause of the issues facing the Iraqi economy, the challenges and the risks of the rentier role of the state, and the dangers of relying on oil production as the main source of revenue.

Furthermore, the Paper introduces a reform program to overcome the budget deficit, strengthen the private sector, and improve the infrastructure of the main sectors such as the electricity and telecommunication sectors.

Business LANDSCAPE had the pleasure to sit with Mr. Ahmed Tabaqchali, an expert in the economy and capital markets with an experience of over two decades, a senior fellow at the Institute of Regional and International Studies (IRIS), and an adjunct assistant professor at the American University of Iraq-Sulaimani (AUIS), to reflect on the current situation of the Iraqi economy and discuss the reforms released in the White Paper.

What has led to the crystallization of the White Paper and its release at such a timing?

The financial and the economic crisis that occurred after the decline of the oil prices and the global lockdown that arose as a result of the pandemic has led to the staggering decline of Iraq's revenues while its expenditures increased. This resulted in a drastic decline in government spending, which in the case of Iraq is the wheel of the economy. Additionally, this government was formed as a result of public demands for change, which in turn led to a new Minister of Finance, who has a thorough understanding of the Iraqi economy.

The Iraqi economy is built on incorrect grounds; its fragile foundation makes it very susceptible to the global crisis, and we became weaker with each passing crisis. Therefore, in order to resolve the above mentioned, we must change the policies that made us vulnerable and fix the accumulated mistakes the previous governments have committed. We need to treat the disease itself and not the temporary symptoms. The core function of the White Paper is to analyze the reality of the Iraqi economy and diagnose the roots of the problem to reset the course of the Iraqi economy. The purpose of the White Paper is to initiate a nationwide dialogue, inviting everyone to participate in this conversation, coming up with and implementing the necessary solutions.

Since the release of the White Paper in October, what progress has been made so far?

The solutions of the White Paper will debut in the government's 2021 budget. The fundamental defect is that the state has an enormous role in the economy; through the massive public sector payroll, social security, the apparatus of the rentier state through the whole system of subsidies, and the provisioning of public services.

The solution requires us to rationalize and reduce the overall level of expenditures. They contribute to the erosion of the economy and are the root cause of the problem. In 2016, payments of salaries and pensions alone exceeded 88% of oil revenues, and currently, they exceed 100%. In the 2021 budget, the payments of salaries and pensions alone are projected to be at 74 trillion dinars while oil revenues are projected to be 73 trillion dinars.

However, when you look at the individual salaries and pensions, they are very modest, but the total combined amount is very large given the huge size of the public sector, and this is where both tragedy and dilemma lie. The total has to be reduced, but without inflicting hardship on the vulnerable members of society. The solution is to impose progressive income taxes on salaries and pensions, as well as consumption taxes, but the political system and society are in a state of denial when it comes to this issue.

They would not accept such a solution, rather they opt for wishful thinking and solutions that do not address the core issue. One example would be maximizing non-oil resources, and in particular taxes on companies and custom tariffs, which while essential and a solution that should be pursued, yet they would take a long time to happen, and even then, would not resolve the main problem. Moreover, such a solution, especially the collection of custom tariffs, is more of a security and political issue, than being an economic issue.

Previously, a timid attempt to implement income taxes on retirees, as part of a wider plan on all incomes, was tried in June 2020; however, it led to public discontent, and media coverage that reversed the measure did not lead to a national dialogue or a discussion of the necessity of the issue.

Imagine you are in a ship, there is a large hole in the hull, and you are trying to remove the water with a teacup. Such solutions would help, but they would not address the basic problem and do not substitute for the fundamental solution to close the hole.

One of the first actions that were taken since the release of the White Paper is the devaluation of the Iraqi currency. However, the public reaction was outrageous and irrational, as the majority feels that the decision is unfair. Yet, everyone is contributing to the problems that plague our country, many citizens participate in the problem as they are overly dependent on the government, looking for jobs in the public sector, and not paying their electricity/water bills, wasting these resources as if it was a birthright. For the White Paper to address the fundamental issues, everyone should bear a part of the responsibility and actively participate in implementing the solutions.

Was there proper media coverage regarding the White Paper to communicate the problems and the suggested solutions on the societal level to initiate a local dialogue?

I do not believe that there was sufficient or enough amount of media coverage surrounding the White Paper. The Minister of Finance, Ali Alawi, and I separately participated in many discussions conducted by economists, experts, intellectuals. Nevertheless, not enough of these discussions were not directed towards the Iraqi citizens, which made it more difficult for the society to accept the suggestions and proposed solutions of the White Paper. My personal conviction is that the paper should be discussed in town-hall-style meetings and not in the usual manner of top to bottom.

The White Paper discussed the effects of the devaluation of the Iraqi dinar and the exchange rate on the economy and the competition with other countries. Iran and Turkey are two of the main countries we import from, and which compete with our agriculture and light industry in our domestic market. But their currencies have depreciated significantly against the dollar over the last few years, which rendered our agriculture and light industry uncompetitive in our own market against them and led to an increase in their exports at the expense of our products.

The devaluation of the Iraqi dinar would serve as an immense boost for Iraq's agricultural and industrial sectors; it will provide them with the opportunity to compete domestically against foreign imports. Agriculture in Iraq accounts for nearly 20% of the jobs in the country, which makes it the largest source of employment outside the public sector at over 40%. The development and the ascent of this sector will contribute to the prosperity of every link in the chain of all the industries and jobs related to this sector - after all a third of all Iraqis live in rural areas.

How essential is the banking sector to the economy and the private sector in particular? The challenges of private banks?

The banking sector in Iraq is one of the most fragile pillars of our economy. The main solution is to enhance and reinforce the banking culture among the population and increase cashless transactions. The essence of any bank's business is converting deposits into loans and earning an income of the difference between the interest paid to deposits and charged on loans. In our case, the majority of the deposits are governmental, and so are the loans; also, the public sector banks dominate the banking landscape leaving a very small role for the private sector banks.

A significant issue is that the majority of the private sector relies on public banks since they believe they are more secure. As a result, our private sector banks do not have the deposit base from which to provide loans to the private sector. We must reduce the role of the public sector banks, especially the Rafidain and Rasheed, as their infrastructure and systems are very outdated and old-fashioned.

Additionally, we must implement the deposit insurance scheme to establish public confidence in the safety of their deposits with the private sector banks.

We notice today that the youth is still dependent on the public sector in terms of hirings. What are the reasons for this behavior pattern, and how does it affect the economy?

The government started hiring citizens in the public sector in the 1970's, this transformed people's lives and ended the feudal system of the past. Professions in the public sector earned the individual the respect of society and increased their socio-economic status.

While this expansion of the public sector worked at the beginning, yet it did not lead to productive activities, i.e., the growth of the tradable goods and services sectors, and instead over the years led to the growth of a massive unproductive bureaucracy.

Therefore, the accumulation of this over the years is a bloated public sector with low productivity workers leading to disguised unemployment that both burdens the federal budget and weakens the private sector.

As a consequence, the educational system, over the years, has transformed into a system that qualifies people to work only in the public sector and does not equip them with the proper set of skills to work elsewhere.

Furthermore, this propelled people to seek employment in the public sector believing it would earn them a more secure and stable lifestyle, to the point that even if they have their own business or work in the private sector, they would still lack the incentives to make their business a success, since they are confident that their profession in the public sector is their insurance.

Changing this system takes time, as the problem is rooted deeply in the Iraqi society.

I do not blame people for perceiving public sector employment as a right, as it is almost a social contract that was established between the government and the people, but we have to understand that it has come to an end, and with that end this open-ended liability.

Ad hoc measures such as providing people with the right to take time off from their public sector job to work on their business or startups are not sustainable, as no business can succeed knowing there is a backup plan.

The only available solution is for people to understand that this path is no longer an option and to start looking for other options and paving new paths.

On the other hand, the government needs to facilitate the registration process, the laws, and the regulations, to encourage people to start their own businesses.

There is a huge gap between the skills required by the private sector and the youth. What can be done to bridge this gap?

We need to implement changes to the educational system to produce graduates equipped with the proper set of skills, train teachers, and change the curricula. We also need to change the social perception of craftsmanship and vocational schools to create opportunities in different fields and sectors. We should also implement more initiatives to train students to fit the needs of the private sector.

How can we create an environment that fosters the growth of the private sector?

Our thinking as a country is still socialist and we depend heavily on government subsidies, but these subsidies are like bike training wheels that should be removed eventually to create commercially sustainable businesses.

The government's role should not revolve around providing subsidies and all manner of goods and services, but its role should be providing security, law enforcement, providing transparent and enforceable regulations, and ensuring a sturdy infrastructure in terms of banking, electricity, transportation, and telecommunications.

We can also look at similar neighboring countries and their experiences, what they have implemented in terms of laws and regulations to strengthen the private sector and lift the government's support and emulate these experiences in Iraq.

What is expected from entrepreneurs to contribute to the success of the solutions presented in the White Paper?

They are expected to focus on and succeed in their work. Success in any sort of work would provide employment opportunities and demand for local products, and would also inspire others to follow in their footsteps. As a result, this would strengthen the private sector and the economy.

The White Paper focused mainly on the electricity, transport, telecommunication sectors, and the free zones and industrial cities, why these in particular?

These are the main levers that move the economy. The list is long, and we do not have the bandwidth or capacity to pursue all, but those are the main aspects that need our urgent attention and would provide the underpinning for other sectors. For example, without electricity, no industry can succeed. Likewise, the telecommunication sector.

In our case, the government manages those main sectors, it rules, regulates, produces, and consumes. Ultimately these sectors need to be privatized on a correct basis to grow and develop while diminishing the role of government to be the regulator and arbitrator in these.

Other countries' attempts to privatize those sectors had only replaced the government monopoly with a few major private sector companies that monopolized the market and did not lead to better services to the population.

Privatization of these sectors should aim to create an open free market where companies compete to provide better services at better prices to the consumers.

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Is the White Paper an action plan or just one of those resolutions that would not take place as the previous ones?

What differentiates the White Paper from all the previous solutions is that it does not come up with temporary solutions to treat only the symptoms of the issue but rather it plucks the roots of the issues.

However, its success relies on the actions taken by the government and the people. As they say, everyone wants change, but no one is willing to change oneself.

The diagnosis the White Paper offers is critical and requires the adoption of difficult measures. Everyone has to participate in implementing those solutions and accept the harsh measures to create a stronger economy and a better future for the youth and our children.